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STATEMENT OF  
  
ELMER B. STAATS  
FORMER COMPTROLLER GENERAL  
OF THE UNITED STATES



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BEFORE THE  
INTERGOVERNMENTAL RELATIONS AND  
HUMAN RESOURCES SUBCOMMITTEE  
OF THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
HOUSE OF REPRESENTATIVES

HSE01506

APRIL 7, 1981

*[Views on Condition of Federal System]*

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Mr. Chairman, I am pleased to be here this morning to share my views on the condition of our Federal system.

During my years of public service, I have seen an almost unbelievable growth in the scope and number of Federal assistance programs. This growth has defined federalism in a new context. Issues that were considered the exclusive domain of State and local governments increasingly have become national concerns.

The interrelationship among Federal, State, and local governments has become much more intricate as Federal funds have grown to account for some 24 percent of total State and local expenditures compared with 10 percent in 1955. The Federal Government now provides categorical assistance to States and localities under about 500 programs. In addition to the categorical programs, which represent the bulk of Federal assistance, we also have five-block grant programs and general revenue sharing. Today, practically every major State and local service is affected by the Federal fiscal and regulatory presence.

Collectively, the narrow boundaries of Federal categorical programs and the estimated 1,200 plus mandates accompanying them have placed major strains on the accountability and administrative capacities of all three levels of government. The increasing interdependence of all three levels of governments in the delivery of public services means that the Federal level cannot afford to ignore the impact of Federal policies on the

ability of State and local governments to effectively manage Federal and non-Federal resources alike.

As fiscal austerity has become the watchword at all three levels of government, increasing critical scrutiny is being given to the structure of Federal assistance and its impacts on State and local finances, management, and, ultimately on program performance and priorities. With budget cutting now a reality, new life has been breathed into the often called for, but seldom acted on, improvements in the massive Federal aid system.

The President's recent proposals for budget cuts and block grants represent a marked departure from the way in which we have defined the Federal role in domestic policy in recent times. These proposals closely parallel the comprehensive conceptual agenda for a fundamental redefinition of the Federal role recently proposed by the Advisory Commission on Intergovernmental Relations (ACIR). ACIR's proposals were based on what it viewed as a widespread disaffection with an intergovernmental system where the Federal role has become "more pervasive, more intrusive, more unmanageable, more ineffective, more costly, and more unaccountable." ACIR disapprovingly notes that the Federal Government is involved with issues that more properly belong to a local school board or city council, reflecting a "feeble faith" at the Federal level in the capacities of the various partners in our Federal system.

The ACIR, as a result, recommends that the Federal Government devolve certain programs back to State and local governments while assuming full financial and administrative responsibility for others, like welfare, which are truly national in nature. This devolution theme, of course, fits well with the President's philosophy of curtailing the Federal role in many domestic policy areas, although the new Administration is opposed to full federalization of currently shared programs, such as welfare.

Undoubtedly, there are many Federal programs which could or should be turned over to State and local governments. The Federal Government can no longer afford to be involved in activities which are primarily matters of State and local government concern. Furthermore, improvements in the fiscal and administrative capabilities of State and local government over the years suggest that they are better able to confront complex and sensitive public policy issues and raise the necessary resources to deal with them. Over the past two decades, States have moved to increase their revenue raising capabilities and upgrade their legislative, executive, and audit staffs.

Forecasts of the political will of States and localities to continue programs from which the Federal Government may withdraw are of course highly conjectural. It seems to me that the decision to continue or withdraw Federal support should be based on whether or not the activities supported are primarily matters of State and local concern. If the political will of States and localities is an important consideration in whether or not program activities

will be continued, then I suggest that by definition we are no longer dealing with matters primarily of State and local concern and a Federal role is appropriate. The criteria proposed by the Kestnbaum Commission and the ACIR represent good starting points for sorting out the Federal role in various public policy areas.

Without prejudging the success of this sorting out process, it is fair to say that the challenge and problems of jointly implementing public programs on an intergovernmental basis will always be with us and certainly cannot be ignored. Indeed, it seems to me there will always be a need for an intergovernmental approach to the solution of certain domestic problems. Problems such as environmental pollution which transcend State boundaries and resource capacities argue for a cooperative intergovernmental approach that balances the diverse interests of the various levels of government while at the same time capitalizes on their unique capabilities and contributions.

If, as I suspect, intergovernmental programs will always be with us, efforts to reform the way we manage assistance programs need to be intensified. I believe that grant consolidation, Federal mandates, accountability and management control, and standardization and simplification of assistance requirements are the four major areas in need of attention. Enactment of legislation along the lines of S .878 which passed the Senate last year would be of great assistance.

## CONSOLIDATION

The consolidation of fragmented and restrictive categorical grants into broader purpose programs is fundamental to improving the administration of Federal assistance programs at all levels of government. The categorical grant system has fostered an unwieldy and fragmented system for delivering public services. Further, categorical grants are often too restrictive to meet actual service needs at the State and local level and the burden of mounting a coordinated effort to deliver federally assisted services falls on the grantee. This causes management problems at the State and local level as grantees attempt to reconcile grant programs with separate and, at times, conflicting standards and requirements.

In addition to creating a variety of administrative problems, the proliferation of categorical programs has considerable impact on State and local priorities. By providing assistance in narrowly defined areas of national priorities, the Federal Government induces State and local involvement into programmatic ventures that they otherwise may not have funded from their own funds. Yet, because of matching and maintenance of effort requirements as well as the long-term costs which can be involved in operating federally assisted programs, State and local funds have also been enticed into these new areas. In this new era of State and local budgetary constraints, the dividend of fiscal growth is no longer available to cushion the cost impact of Federal grants. Localities in cutback

situations find that federally funded programs and basic services not eligible for Federal grants compete with each other for shrinking local dollars.

In a recent report, "Proposed Changes In Federal Matching And Maintenance Of Effort Requirements For State And Local Governments," GAO noted that localities facing budget reductions most often choose to continue their matching contributions to retain Federal grant funds while cutting, disproportionately, services funded solely from local revenues to maximize local budget savings while minimizing programmatic impact. As a result, a local priority shift towards federally funded programs occurs. GAO recommended that the Congress use matching requirements more sparingly and only where a specific Federal interest can be articulated. This would help restore State and local discretion in allocating their own funds. Maintenance of effort requirements on the other hand, usually serve a clear Federal interest and need to be changed to more effectively prevent the substitution of Federal for State and local funds. However, GAO suggested that maintenance of effort requirements need to be made more flexible to avoid penalizing or inhibiting bona fide State and local budget reductions.

#### FEDERAL MANDATES

A growing number of costly Federal requirements have been applied to State and local governments either by direct order or as conditions of aid. One study estimated that 1,260 mandates

currently apply to State and local governments, ranging from handicapped access requirements or safe drinking water standards, which impose onerous fiscal burdens, to administrative reporting or single State agency requirements which impose needless paperwork burdens or inhibit management flexibility. These impacts are not formally considered in the legislative process, nor is Federal reimbursement for compliance costs routinely available. The shifting of costs that occurs when one level of government enacts rights or benefits without providing for their financing is an issue that will intensify as resource scarcity increasingly dominates budgetary agendas at all levels of government.

#### ACCOUNTABILITY AND MANAGEMENT CONTROL

Increased attention should also be directed to the issue of management control and accountability, as all levels of government must learn how to cope with reduced resources. As with most functions in our intergovernmental system, the task of achieving accountability for grant program management should be shared. There are strong and legitimate limits on the ability of the Federal Government alone to oversee and regulate grantee management of Federal funds.

In two recent reports, GAO advocated increased State and local oversight of Federal programs to better promote the accountability of these programs to the public and improve productivity. As a practical matter, however, State and local governments have little incentive to better manage and oversee Federal programs.



This is primarily a function of the inadequate rewards accruing to the State and local sector from effective management of Federal programs. Two principal features of our system contribute to this situation. First, the typical program is highly restricted in purpose and eligibility by federally developed standards and criteria. While the Federal level sees added control through such limitations, grantee oversight is discouraged when they are given little discretion over program definition and scope. Secondly, most if not all dollar savings achieved through productivity improvements or reductions in program scope accrue to the Federal Government, not State and local governments. In fact, higher State spending is rewarded in over one-third of Federal formula grants.

Such features tend to exacerbate the inefficiency of federally assisted programs. The accountability of these programs to the needs and priorities of the State and local citizenry suffers as well. Insufficient oversight can also result in expensive duplication, conflict, and overlap between federally funded and State funded programs serving similar objectives.

In a report, "State And Local Government Productivity Improvement: What Is The Federal Role?," GAO recommended initiatives to remove barriers retarding State and local government productivity and an effort to incorporate positive incentives to reward effective management and improved productivity by State and local grantees. Legislation such as the proposed Federal Assistance Reform Act and the recently enacted Paperwork Reduction Act are positive steps

toward removing the barriers by streamlining, simplifying, and consolidating assistance programs.

GAO has also urged that the Federal assistance system be changed to correct its tendency to discourage oversight by State legislatures. While many legislatures have been increasing their oversight over Federal funds in recent years, Federal assistance policies generally discourage legislative involvement by virtue of grant provisions delegating specific responsibilities for planning, program organization, and evaluation to State executive branches. GAO recommended that the Intergovernmental Cooperation Act of 1968 be amended to ensure that these grant provisions not be construed as limiting or negating oversight by State legislatures. Not only would more active State legislative involvement increase accountability but the Federal Government would become more neutral with regard to internal separations of powers distinctions made by the States.

One of my highest priorities while serving as Comptroller General was to encourage initiatives to improve the audit of grant and assistance programs, including increased use of State, local, and private auditors to assist in the oversight of Federal programs. The single audit concept, advanced in the GAO report, "Grant Auditing: A Maze Of Inconsistency, Gaps, And Duplication That Needs Overhauling," would go far in eliminating needless duplication of audits as well as gaps in audit coverage that arise through the uncoordinated audits carried out by each Federal agency. I believe that legislation is

needed to give a statutory base to the important reforms initiated by OMB, with GAO's cooperation, to administratively implement the single audit process.

#### STANDARDIZATION AND SIMPLIFICATION

In addition to the fiscal and accountability issues, sustained effort is needed in the area of standardization and simplification of program requirements. A number of important efforts have been undertaken in the past by both the Congress and the executive branch to promote standardization and central management guidance in the administration of Federal assistance, including passage of the Intergovernmental Cooperation Act of 1968 and development of several OMB management circulars defining standard administrative practices, cost principles, and audit procedures.

Passage of the Grant and Cooperative Agreement Act promoted a more recent wave of interest in simplifying guidance on the management of Federal programs. I am especially pleased that OMB has committed itself to a stronger, more active role in assistance policy management. I have continually supported a strong role for OMB as the primary agency for implementing reforms.

#### OTHER MAJOR ISSUES

In addition to these Federal assistance management issues, I believe there are two emerging problems which will require attention and resolution during the 1980's:

### Energy severance taxes

The imposition of high severance taxes by energy-rich States will add fuel to the growing conflict between the Sunbelt and Frostbelt regions of the country. These taxes promise to further redistribute income and budgetary affluence away from the older industrial Northern and North Central regions toward the rapidly growing Southwest and Mountain areas. A definition of the Federal role in policing the exportation of tax burdens from one State to others will be difficult, but probably necessary to help alleviate regional economic distress and decay.

### Urban crisis and municipal bankruptcy

A number of larger, older cities caught in declining economies will face a widening gap between their residents' demands and needs for public services and the revenues available to pay for them. This fiscal problem will be exacerbated as the sun sets on Federal fiscal assistance like CETA which helped them to bridge this gap. Pressure for Federal assistance could intensify if these cities either enter bankruptcy or have to institute damaging cuts to avoid it. It seems to me that the Federal role in addressing this problem needs to be defined but within the context of the fiscal capacities of the States to aid their cities.

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In summary, Mr. Chairman, as has been the case throughout our Nation's history, there are significant federalism issues facing us.

However, considering the magnitude of these issues today, I believe the proposals for a Convocation on Federalism or the creation of a temporary Commission to examine our governance processes have merit. Many issues have been thoroughly studied by organizations such as ACIR and GAO and recommendations have been made to resolve them. Some issues require further study as to the nature of the problems and proposed solutions. To be of maximum effectiveness and avoid delaying action on important reforms, I believe a Convocation or Commission should have clearly defined study and reporting objectives and a congressional and executive branch action program to evaluate recommendations and carry out those meriting implementation. It is my belief that a Convocation or Commission could serve to highlight the importance of the issues confronting us, increase public awareness, and ultimately provide the momentum needed to solve the problems testing federalism in the 1980's.

Mr. Chairman, that concludes my prepared statement. I would be pleased to respond to any questions.